Sources of Long Run Growth of the Russian Economy Before and After the Global Financial Crisis

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Although productivity slowdown of the global economy was observed before 2008, it is the 2008 crisis that stimulated studies on its origins. In this context, recent studies mention inefficient investments to machinery, human capital and organizational processes. This can include the skill mismatch and the lack of technology diffusion from advanced to laggard industries and firms. To what extent is this global view helpful in understanding recent productivity slowdown of the Russian economy?

The present study reports that, at least, some of the causes of the global slowdown can be observed in Russia. Using the conventional industry growth accounting, as well as the shift share analysis within the World KLEMS framework, this study compares the pre- and post-crisis sources of growth of the Russian economy. Specifically, it represents aggregate labour productivity growth as the sum of capital deepening and total factor productivity (TFP) growth in industries, and the contribution of labour reallocation between industries. It shows that stagnation of 2009-2014 is more the outcome of TFP slowdown and the deterioration of the allocation of labour rather than the lack of capital inputs. Moreover, TFP slowdown started in Russia a few years before the crisis, the same as in major global economies, such as the United States, OECD countries, China and Brazil. At the same time, relatively stable capital deepening makes the Russian pattern in some degree similar to resources abundant Australia and Canada, which raised investments in mining sector, responding to the capital intensive boom in China and India. Eventually, the contribution of ICT capital to labour productivity growth in Russia after 2008 declined, which can hamper technology diffusion. Finally the structure of capital services in Russia has changed after 2008. Before the crisis the contribution of machinery and equipment dominated, while after the crisis constructions provided the lions' share of capital inputs.

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